BE BOLD TEXAS

A Principled Case for Substantial Tax Reform

THE FINAL REPORT

of the

TCCRI STATE TAXATION TASK FORCE

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FINAL REPORT OF THE TCCRI STATE TAXATION AND REVENUE TASK FORCE

PART I: THE FRANCHISE TAX

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ABOUT TCCRI TASK FORCES

The Texas Conservative Coalition Research Institute's Task Forces are the backbone of the Institute's research and education efforts. Based on the conservative principles of limited government, individual liberties, free enterprise, and traditional values, the Institute's Task Forces develop legislative leaders and sound public policy ideas by bringing together legislators, experts, industry leaders, and stakeholders in a unique forum that fosters discussion and debate among public and private sector leaders. This approach has proven to be very successful.

2011-12 STATE TAXATION AND REVENUE TASK FORCE

The 2011-12 TCCRI State Taxation and Revenue Task Force was chaired by State Senator Dan Patrick, State Senator Ken Paxton, and State Representative Jim Murphy.

The task force met throughout the 2011-12 legislative interim to review the state's tax structure, and to examine ways in which tax relief could be provided in order to make Texas' economy the strongest in the nation. The final report of the Task Force will be released in two parts. This is part one of the report, dealing the Texas franchise tax. The second part of the report will address property taxation and is forthcoming.

FINAL REPORT OF THE STATE TAXATION AND REVENUE TASK FORCE

PART I: THE FRANCHISE TAX

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"If there is one gloriously opportune time to cut taxes, it is when revenues are booming…If Texas cuts taxes right now, it will encourage all the more business and entrepreneurship, on top of what has already occurred, without jeopardizing current governmental operations."

– Prof. Brian Domitrovic, "As California Founders, It's Time For A Tax Cut In Texas," Forbes, July 31, 2012.

The Case for Tax Reform and Relief

Over the past decade or more, Texas has set an example of good governance to the nation. The Legislature has enacted a succession of balanced budgets without a major tax increase. The state has maintained its generally favorable regulatory climate that has encouraged business investment. Civil justice reforms have all but eliminated frivolous lawsuits and ended a physician shortage in the state. And a willingness across the public and private sectors to extract natural resources has helped the state maintain its position as the nation's leading energy producer and employer.

As a consequence of this good fiscal and economic governance, Texas' unemployment rate of 6.6 percent is the lowest of the ten most populous states and is significantly lower than the national average of 7.9 percent.[i] As one Texas newspaper noted this summer:

> The state has hit a two-year mark of consistent job growth. It's an achievement worth noting while many states are hampered with liberal unions and policies that stifle jobs. Texan conservative governing policies have continued to show results.[ii]

This sound fiscal management also continues to attract businesses – Texas is home to the second highest number of Fortune 500 companies in the nation (52), one behind California and three ahead of New York.[iii] Texas is also ranked as the second most entrepreneurial state in the nation (behind Arizona), with 440 business start-ups per 100,000 adults in 2011,[iv] and was named CNBC's Top State for Business 2012.[v]

Texas has recovered strongly from the economic downturn, regaining all of the payroll job losses that occurred since 2008[vi]. Recent figures released by the Comptroller show 32 consecutive months of sales tax revenue growth, while state's economy accounts for nearly nine percent of the nation's output.

However, with these successes come new challenges. Other states are beginning to emulate Texas' fiscal and economic management. Wisconsin has enacted sweeping public sector reforms[vii], Ohio, Kansas, and Indiana have cut income and/or business taxes, while even New Jersey has slashed its budget and cut property taxes. California remains one of the nation's only true outliers, approving sales tax and income tax hikes in the November election.[viii]

While Texas still ranks highly according to many indicators (including those listed above), Texas' jobs success story masks underlying problems. The table below lists some of Texas' recent rankings in national fiscal and economic surveys: by many other measures the state is in the middle of the pack. Clearly, Texas can improve its economic climate, primarily by reducing its overall tax burden:

Study	Texas' Most Recent Ranking
Mercatus Center, **Economic Freedom**	14
Council on State Taxation, **Tax on New Investment**	20
Journal Sentinel, **Tax per Capita**	16
Sales Tax Clearinghouse, **Sales Tax Burden**	40
Minnesota Taxpayers' Association, **Residential Property Tax**	37
Minnesota Taxpayers' Association, **Business Property Tax**	44
American Legislative Exchange Council, **Economic Outlook**	16

Indeed, Texas' rankings in these seven national studies underscore the point that the state must act soon to arrest what may be the beginning of a fiscal and economic decline relative to other states. As economist Brian Domitrovic recently argued:

> Given the great rise in state tax receipts in recent years, Texas stands in jeopardy of repeating California's grave mistake. If Texas does not cut taxes soon, it will guarantee an increased level of governmental displacement of the real economy and choke off the sources of what's emerging as one of the proudest moments in all of Lone Star history: the state's great prospering in the context of national economic stagnation.[ix]

The national context, too, should provide impetus for tax reform in Texas. As a result of the "fiscal cliff" deal, every employee will pay higher payroll taxes as a result of the President's demand for higher taxes which is in addition to the higher marginal tax rates that will hit small business owners and upper income earners. Beyond the "fiscal cliff" deal, the nation's taxpayers and producers still face a mountain of federal debt, a monetary crisis, and continued excessive federal taxation and regulation.

Economically excruciating Environmental Protection Agency regulations, misguided financial overregulation in the form of Dodd-Frank and Sarbanes-Oxley, rapid expansion of the federal and state welfare rolls, inexorably rising federal debt that now exceeds $16 trillion, and the government takeover of the nation's health care system mean that Texas must pull as hard as possible in the other direction. If the federal government intends to be the regulator and nanny state of first resort, Texas must be the low-tax, small-government leader.

If Texas does not make a bold move by cutting taxes and reducing the footprint of government, then the state's future is clear: the closing of Hostess Foods[x], increased taxes and layoffs due to Obamacare[xi], and cut backs on worker hours[xii], suggests the near future for the American economy.

With the federal government veering so sharply from the core economic principles and values that made America prosperous, Texas can no longer be satisfied with being merely relatively better than Washington D.C. or failed states like California. Texas must resolve to be absolutely better than all other states and the nation as a whole. The state has a solid foundation on which to build: meaningful tax relief and reform is one of the only missing pieces from a decade of solid conservative fiscal and economic governance. Free market capitalism is still the best path to prosperity,[xiii] and it is up to Texas to continue to prove it.

A Private Sector Path to Prosperity

Texas has an opportunity to show that more government is not the way forward. Rather than creating new government programs, expanding or growing existing programs, or hiring more public employees, Texas can underscore its faith in the free market by permanently lowering taxes and setting itself on a private sector path to prosperity.

The state's franchise tax and local school district maintenance and operations property taxes are both unnecessarily burdensome, and should be the focus of any legislative efforts to provide tax relief. It is also evident (as this report will make clear) that the benefits of providing tax relief in terms of dynamic revenue increases, as well as improvements in job creation, investment, and disposable income go a long way toward mitigating the short-term revenue losses to state coffers.

In total, all state taxes and school district maintenance and operations (M&O) property taxes generate $56.4 billion per year. The table below illustrates how these major taxes are broken down:

Tax	*Annual Revenue*
State Sales and Use	$21.5 billion
School District M&O	$17.6 billion
Franchise Tax	$ 3.9 billion
Insurance Taxes	$ 1.3 billion
Natural Gas Production Tax	$ 1.1 billion
Other Taxes (Motor Fuels, Motor Vehicle Sales & Use, Oil Production etc.)	$11.0 billion
TOTAL:	**$56.4 billion**

Source: Comptroller of Public Accounts

The sales and use tax is not only the largest single revenue generator, but it is one of the least onerous and most efficient and transparent forms of taxation. Consumption taxes in general (of which Texas' sales and use tax is an example) are a superior form of taxation because they do not penalize work, savings or investment. In 2005, then-Federal Reserve Board Chairman Greenspan testified to the following economic benefits of consumption taxes: "…many economists believe that a consumption tax would be best from the perspective of promoting economic growth… because a consumption tax is likely to encourage saving and capital formation."

Contrast the sales and use tax with the state's two next largest revenue generators – school district M&O property taxes and the franchise tax[1] – and it is evident that property taxes and the franchise tax are where lawmakers should focus their tax relief efforts. These two taxes are especially punitive toward businesses, job creation, capital investment, and, in the case of the property tax, home ownership.

Reforming these taxes to put the state on a path to greater economic prosperity demands bold action. Targeted tax incentive programs are always more politically viable than eliminating taxes entirely or reducing rates, but better fiscal policy requires the political will to realize the substantial economic benefits of broad based tax reduction and elimination.

[1] While school district M&O property taxes are not technically "state" taxes because they are set and levied at the local level, the nature of Texas' school finance system means that the state has an overriding interest in the taxes levied by school districts.

At the same time as the state levies the franchise tax and school districts levy M&O property taxes, there are numerous tax breaks on offer to businesses: property tax abatements under Chapter 313 of the Tax Code, the franchise tax small business exemption, the Moving Image Industry Incentive Program, and the High Cost Natural Gas Production Tax exemption to name just a handful.

Implicit in each of these programs is the notion that low taxes encourage economic growth. Tax incentives are based on the concept that if a business gets to pay lower net taxes because the state gives it a tax break, it will relocate to Texas, remain in Texas, or expand its operations in Texas. Each of these outcomes would boost the state's economy and create jobs. This raises an obvious question: if targeted tax reductions boost narrow sectors of the economy, why not simply cut tax rates in order to spur economic growth in all sectors? Instead, an interminable amount of effort is put into tinkering with the state's tax system by making minor changes to existing taxes and creating a multitude of "targeted" incentives.

The time has come to cease making piecemeal reforms and incentive programs at the behest of one special interest or another. This is the failed course charted in Washington that gave us such examples of policy failures as the Wind Production Tax Credit and federal corn subsidies. Instead, Texas must be bold and visionary, setting itself aside from the rest of the nation.

Lawmakers must break with the past and advocate for repeal of the Texas franchise tax and a transition away from property taxes to fund public schools. The state must stop trying to pick winners and losers: the free market is perfectly capable of fulfilling that role. Repealing the franchise tax would make Texas the only state in the nation without a form of broad corporate or business taxation. If such a policy was to be pursued, serious consideration must also be given to ending the array of tax incentive programs that currently litter the Tax Code and the Government Code. Being the only state without a business tax is the ultimate incentive program, while reducing the property tax burden would attract business investment, create jobs, increase disposable income, and make home ownership more affordable.

The Path Forward

This report lays out the case for elimination of the franchise tax. Part II of this report (which is forthcoming) advocates for a transition away from property taxes to consumption taxes to fund the maintenance and operations of public schools. That report will also make the case for a lower property tax appraisal cap or property tax revenue cap to provide homeowners and business owners with relief from inexorable appraisal growth. Taken together, these reforms would represent a substantial transformation of the state's tax structure, and thus, the state economy.

The fundamental point is that Texas has an opportunity to make a bold fiscal move by eliminating a tax or by substantially reducing a tax. Precisely how this is to be achieved can be determined by policy makers; this report simply lays out a path forward and illustrates the economic benefit of starting down that path.

To that end, the state's franchise tax and school district maintenance and operations (M&O) property tax must be the focus of tax relief efforts. By cutting taxes now, Texas can create substantial dynamic economic benefits that will pay dividends in the future, bringing increased economic activity:

> If Texas cuts taxes right now, it will encourage all the more business and entrepreneurship, on top of what has already occurred, without jeopardizing current governmental operations. Indeed, a virtuous circle will unfold in which tax cuts make the state ever more attractive, generating receipts that can bring about yet another tax cut down the line.[xiv]

This report lays out the path to providing this kind of tax relief and illustrates the valid and defensible economic benefits of undertaking such an approach.

On behalf of TCCRI's State Taxation and Revenue Task Force, the Beacon Hill Institute at Suffolk University undertook dynamic fiscal and economic analyses of eliminating or substantially reducing the franchise tax, and of transitioning from property taxes to consumption taxes to fund public schools.

As outlined in detail in this report, either one of these reforms would produce substantial economic benefits for the state by creating jobs, attracting higher levels of business investment, and increasing disposable personal income. These recommended reforms would also establish a more efficient and less punitive tax structure for the state.

The Franchise Tax

The current iteration of the franchise tax was created in 2007 in order to raise the additional revenue that is necessary to fund reductions of school district property tax rates.

In its *Neeley v. West Orange-Cove CISD* decision (176 S.W. 3D 746 (TEX. 2005)), the Texas Supreme Court held that because independent school districts lacked "meaningful discretion" over property tax rates the "public school finance system violates Article VIII, section 1-e of the Texas Constitution." Article VIII, section 1-e reads, "no State ad valorem taxes shall be levied upon any property within this State."

In other words, although the Texas Constitution prohibits the imposition of a statewide property tax, because so many school districts were taxing at or near the $1.50 rate cap imposed by the Legislature, the Supreme Court declared that the school district property tax was, in effect, an unconstitutional statewide property tax. As a result of the Supreme Court's 2005 decision, the Legislature had to reform the public education finance system to ensure that public schools could continue to receive funding after June 1, 2006.

The plan that the 79th Legislature implemented required school districts to lower their M&O (maintenance and operations) tax rates such that the tax could no longer be considered a statewide property tax. In order to fund the loss of revenue that school districts would suffer when they lowered their tax rates, the Legislature enacted the new franchise tax and reformed the motor vehicle sales and use tax and cigarette and tobacco taxes. All additional revenues generated by these reforms are dedicated to the Property Tax Relief Fund, and are statutorily directed to school districts to pay for property tax relief.

How the Franchise Tax Works

The previous version of the franchise tax was paid at the greater of 0.25 percent of taxable capital or 4.5 percent of earned surplus, but contained a range of loopholes that allowed businesses organized as partnerships or non-corporate associations to avoid paying the tax. The current franchise tax is levied on adjusted gross receipts at a rate of 1 percent for all businesses except those primarily engaged in retail or wholesale trade, which are taxed at 0.5 percent. The tax closes many of the loopholes afforded by the previous iteration, and is applied to corporations, limited liability companies, partnerships (other than those comprised entirely of natural persons), business trusts, professional organizations, business associations, and joint ventures. Some legal entities, such as sole proprietorships, are still exempted from the Margins Tax.

A business that is required to pay the Margins Tax must calculate its "taxable margin," which is the least of the following three amounts:

- Total revenue (adjusted gross receipts) minus the cost of goods sold; or
- Total revenue minus compensation paid (capped at $300,000 per employee and excluding payments made to independent contractors); or
- Total revenue multiplied by 70 percent.
- Taxpayers with annual total revenue of $10 million or less can elect to use the E-Z computation method to calculate their tax liability: Total revenue times a rate of .00575 percent.

When the tax was enacted, businesses with total revenue of $300,000 or less were exempted from paying the tax, as were businesses that calculated their tax liability to be less than $1,000. In 2007, the Legislature also added a sliding scale of tax discounts to benefit small businesses having total revenue of greater than $300,000 but less than $900,000. The discounts ranged from 80 percent of the tax due for taxpayers in the lowest bracket ($300,000-$399,999 in total revenue) to 20 percent of tax due for those in the highest bracket (total revenue of more than $700,000 but less than $900,000).

In 2009, the Texas Legislature enacted House Bill 4765 (81R), which temporarily created a $1 million revenue exemption for the 2010 and 2011 tax years. As a result of this legislation, businesses with revenue below $1 million in 2010 or 2011 will owe no franchise tax for those years. HB 4765 also established a new permanent revenue exemption of $600,000 that will take effect in 2012. From 2012 onward, all businesses with annual revenue below $600,000 will owe no franchise tax to the state.

Problems Created by the Franchise Tax

Like all forms of margin-based taxation, the Texas franchise tax has serious flaws. The tax is complex, with businesses having a multitude of ways to calculate their liability, unclear rules pertaining to what can be excluded from "total revenue" in adjusting their gross revenue, as well as what items can be included in the deductions for either "cost of goods sold" or "compensation." Margins taxation is also especially punitive for businesses that have narrow margins and can create situations in which businesses owe tax to the state despite having recorded a loss.

The Tax Foundation summarized problems with the tax thusly:

> With the Texas margin tax collecting far less in revenue than expected, causing significant confusion and compliance costs, resulting in significant litigation and controversy over "cost of goods sold" definitions, and facing calls for substantial overhaul and even repeal, it should not be used as a model tax reform for any other state.[xv]

That the margins tax "should not be used as a model for tax reform"[xvi] is perhaps the best reason it ought to be abolished. Recognizing its deficiencies, the Legislature has already made multiple revisions to the tax, including raising the total revenue exemption[xvii], creating additional compensation deductions for small businesses[xviii], and adding an alternative tax liability calculation for certain businesses[xix] .

Most importantly, the franchise tax failed on two other fronts: it failed to help keep down property taxes, and failed to keep the state out of court. It was only five years from the implementation of the franchise tax to the current school finance lawsuit. This failure was anticipated by State Representative Bill Keffer during the floor debate prior to enactment of House Bill 3 (79S3), which created the franchise tax:

> We're here because of a lawsuit and a Supreme Court decision that was handed down that told us that we had an unconstitutional property tax system that we needed to fix. And yet we're being told that in House Bill 3, we should implement a new permanent business tax, but it does nothing to solve the problem that brought us here in the first place. There is nothing in this bill that even attempts to argue that the Supreme Court unconstitutional finding that was made in West Orange-Cove will be solved. So as a result we can expect another lawsuit, and we can expect to be in front of the Supreme Court again, and we can expect to be in this chamber once again trying to figure out how to out of an unconstitutional situation. And yet at that time, we will have a new permanent business tax to deal with as well.[xx]

The extent of the failure of the franchise tax to live up to revenue projections is summarized in the following table, which shows that revenues have fallen $4.3 billion short of projections through the 2010-11 biennium:

Biennium	Comptroller's Franchise Tax Biennial Projection	Actual Franchise Tax Revenue	Difference
2008-09	$11.9 billion	$8.7 billion	($3.2 billion)
2010-11	$8.9 billion	$7.8 billion	($1.1 billion)

Source: Comptroller of Public Accounts

The failure of the tax to generate funds for property tax relief is also stark, with those revenues falling $4.1 billion short of revenue projections through the 2010-11 biennium:

Biennium	Comptroller's Projection of Franchise Tax Revenue for Property Tax Relief	Actual Property Tax Relief Fund Revenue from Franchise Tax	Difference
2008-09	$6.1 billion	$3.1 billion	($3.0 billion)
2010-11	$3.6 billion	$2.5 billion	($1.1 billion)

Source: Comptroller of Public Accounts

The tax has failed in part because the expectations of the revenue that it would produce were too optimistic. Taxing any form of economic activity means that you will get less of it, yet the final report of the Texas Tax Reform Commission – which proposed the current franchise tax – argued that "with the growth in the economy occurring in the lightly taxed industries, Texas cannot grow its way out of its tax problem… therefore a broader base for the state's business tax is required."[xxi] Even while conceding that there is a correlation between lightly-taxed businesses and economic growth, the commission managed to propose a tax that has hurt the state's economy by raising the business tax burden. It should be no surprise then, that the tax has not generated revenues as anticipated.

Each of these failures alone should be sufficient for the legislature to consider repealing or reforming the franchise tax, but taken together they demand bold legislative action.

Reducing and Repealing the Franchise Tax

Although the franchise tax is Texas' primary business tax, it generated only 4.2 percent of all state revenues in 2011. Texas' relatively healthy fiscal position could enable the state to abolish the franchise tax possibly through use of the surplus and spending cuts. As an alternative to outright elimination, the franchise tax rates could be reduced by 50 percent, thereby providing an across-the-board tax reduction to all businesses in Texas, including manufacturers.

Repealing the franchise tax or halving the rates at which the tax is levied would have substantial economic benefits for the entire Texas economy. The Beacon Hill Institute at Suffolk University (BHI) has modeled the dynamic fiscal and economic effects of both of these policy proposals. Using 2013 as the baseline year for repeal, BHI's economic model shows 31,500 net new jobs created across the entire Texas economy, as well as $3.2 billion in net new investment in the state, and $6 billion in new personal disposable income.[xxii] And while the state would forgo $3.9 billion of projected franchise tax revenues in 2013, this would be partially offset by dynamic revenue increases in other state tax collections, notably the sales and use tax ($133 million) and oil and gas severance taxes ($41 million).[xxiii]

By 2017, BHI projects that the economic gains accruing from repeal of the franchise tax will have increased significantly: 10,000 additional new jobs will be created (taking the total net new jobs to 41,500), while new net investment will rise to $3.4 billion, and new personal disposable income to $9.8 billion. Analyzing the results of their model, BHI notes that:

> The elimination of the franchise tax leads to a reduction in the after-tax burden on income derived from capital investments. This provides a powerful incentive for business owners inside Texas to invest in their businesses. Investment projects that may not have been profitable enough to justify the investment when taking into account property taxes, now become more profitable on an after tax basis. Moreover, firms looking to locate new facilities in the United States would find Texas an even more attractive location in the absence of the franchise tax.[xxiv]

BHI's results are summarized in the following tables:

Fiscal Effects of Repealing the Texas Franchise Tax:

	2013	2017
State Taxes	($ millions)	
Franchise Tax	-4,210	-4,531
Sales Tax	133.0	188.5
Vehicle	4.4	6.7
Motor Fuels	3.8	5.6
Oil & Gas	40.8	52.2
Insurance Occupation	5.2	7.6
Other Revenue	97.8	125.2
Subtotal	-3,925.0	-4,145.2
Local Taxes		
Sales Tax	47.2	68.8
Residential Property Tax	na	na
Business Property Tax	357.5	461.7
Other Revenue	54.8	70.3
Subtotal	459.5	600.8
Total	**-3,465.5**	**-3,544.4**

Economic Effects of Repealing the Texas Franchise Tax:

Year	Private Employment	Investment	Real Disposable Income
	(Jobs)	($ billion)	($ billion)
2013	31,500	3.2	6
2017	41,500	3.4	10

Repealing the franchise tax would clearly be of tremendous benefit to Texas economy. BHI underscores the impetus for legislative action, arguing that "[T]he governor and new legislature should take tax reform seriously in the upcoming term to further boost the competitive Texas economy."[xxv]

One of the biggest hurdles to the abolition of the Texas franchise is the revenue loss to the state. However, it should be underscored that the franchise tax accounts for only around four percent of the state's annual tax receipts, meaning that a relatively modest reduction in state spending is all that would be needed if the franchise tax was repealed.

In addition a second option to cut franchise tax rates by half may be more palatable given the revenue loss associated with complete repeal. BHI's economic model shows that reducing franchise tax rates by half would lead to a dynamic revenue loss to the state of only $1.3 billion in 2013, and falling to just $940 million by 2017 as revenue growth from the state's other taxes begins to take up the slack.[xxvi] This option is also worthy of consideration, perhaps as a stepping stone to complete repeal of the franchise tax:

Fiscal Effects of Cutting the Texas Franchise Tax by 50 percent:

	2013	2017
State Taxes	($ millions)	
Franchise Tax	-1,439	-1,077
Sales Tax	60.0	63.8
Vehicle	1.9	2.1
Motor Fuels	1.6	1.8
Oil & Gas	16.9	15.6
Insurance Occupation	2.1	2.4
Other Revenue	54.9	51.1
Subtotal	-1,302	-940
Local Taxes		
Sales Tax	21.3	23.3
Residential Property Tax	na	na
Business Property Tax	172.7	164.2
Other Revenue	25.8	24.6
Subtotal	459.5	600.8
Total	**-1,129**	**-776**

Economic Effects of Cutting the Texas Franchise Tax by 50 percent:

Year	Private Employment	Investment	Real Disposable Income
	(Jobs)	($ billion)	($ billion)
2013	12,200	1.8	2.6
2017	16,200	1.9	4.0

BHI's results show that halving the rates at which the franchise tax is levied would still produce substantial economic benefits for Texas, while mitigating the revenue loss to the state treasury that would be associated with complete repeal of the tax. Policy makers should therefore consider halving the rates of a tax as a viable option, perhaps as stepping-stone to complete repeal.

In concert with gradually repealing the franchise, it may be necessary to establish a temporary research and development (R&D) franchise tax credit for companies engaged in research and development. This would provide immediate tax relief for these companies, and is in line with one of the recommendations of the Texas House Interim Committee on Manufacturing. The committee's final report to the legislature noted that:

> Texas is one of only 10 states who do not offer some form of a research and development tax credit. This tax credit was eliminated in the adoption of the revised margins tax in 2006. According to testimony from panel members, an ideal research and development incentive would be two fold, with an R&D tax credit component to the franchise tax and an exemption to sales taxes for purchases of a research and development nature. These incentives are key steps towards proving to businesses that Texas is interested in long term growth and development.[xxvii]

In addition to providing an R&D tax credit, the state must also end double taxation of telecommunication equipment and broadband service [servers, routers, etc.] to stimulate investment in telecommunications (Sec. 151.3185, Tax Code). This double-taxation is economically inefficient. Repealing the taxation of telecommunication equipment under Section 151.3185 of the Tax Code could have the benefit of getting all areas of the state access to high speed internet, which would spur access to online course work (VSN) and telemedicine, among other online services.

Conclusion

This session's budget surplus provides legislators with an historic opportunity to provide tax relief. Setting the state on the path toward elimination of the franchise tax will help spur greater economic growth and development, as is evidenced by the results of the Beacon Hill Institute's analyses. Franchise tax elimination will also lead to higher levels of personal disposal income and will make Texas more economically competitive than almost any other state in the nation. The path forward is clear: the franchise tax must be phased out.

Note: Part II of the Final Report of the State Taxation and Revenue Task Force will address property tax relief and reform, and is forthcoming.

ENDNOTES

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[vi] Heleman, J. "An Overview of the Texas Economy and State Revenue Collections," *presentation to the House Appropriations Committee,* February 21, 2012.
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[xvi] *Ibid.*
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[xviii] HB 3928 (80R).
[xix] *Ibid.*
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[xxi] Texas Tax Reform Commission report to the 79th Legislature, March 29, 2006. [Emphasis added]
[xxii] Beacon Hill Institute, "Tax Reform in Texas: Lowering Businesses Costs, Expanding the Economy," November 2012.
[xxiii] *Ibid.*
[xxiv] *Ibid*
[xxv] *Ibid.*
[xxvi] *Ibid.*
[xxvii] House Committee on Manufacturing, Interim Report to the 83rd Texas Legislature (January 2013).